

## **FINANCIAL STATEMENTS**

# Department of Community Health

## STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
<b>Current:</b>			
Cash, Cash Equivalents and Investments	\$ 8,988,202.70	\$ 27,916,609.57	\$ 36,904,812.27
Cash, Cash Equivalents and Investments - Restricted	18,890,348.75	-	18,890,348.75
Receivables: (Net of Allowances for Uncollectibles)			
State Appropriation	260,878,862.68	-	260,878,862.68
Intergovernmental - Federal	694,671,809.26	-	694,671,809.26
Other	186,438,374.77	47,898,745.27	234,337,120.04
Total Current Assets	<u>\$ 1,169,867,598.16</u>	<u>\$ 75,815,354.84</u>	<u>\$ 1,245,682,953.00</u>
<b>Noncurrent:</b>			
Capital Assets, Net	\$ 738,262.26	\$ -	\$ 738,262.26
Investments	-	266,601,178.55	266,601,178.55
Total Noncurrent Assets	<u>\$ 738,262.26</u>	<u>\$ 266,601,178.55</u>	<u>\$ 267,339,440.81</u>
Total Assets	<u>\$ 1,170,605,860.42</u>	<u>\$ 342,416,533.39</u>	<u>\$ 1,513,022,393.81</u>
<b>Liabilities:</b>			
<b>Current:</b>			
Cash Overdraft	\$ 56,438,708.03	\$ -	\$ 56,438,708.03
Accounts Payable and Other Accruals	95,227,734.98	14,409,331.45	109,637,066.43
Salaries Payable	17,446.07	8,058.65	25,504.72
Federal Deferred Revenue	45,025,115.09	-	45,025,115.09
Benefits Payable	957,200,000.00	169,380,000.00	1,126,580,000.00
Other Deferred Revenue	-	54,629,428.75	54,629,428.75
Current Portion of Compensated Absences Payable	860,590.49	130,518.92	991,109.41
Current Portion of Contracts Payable	13,869,284.66	-	13,869,284.66
Total Current Liabilities	<u>\$ 1,168,638,879.32</u>	<u>\$ 238,557,337.77</u>	<u>\$ 1,407,196,217.09</u>
<b>Noncurrent:</b>			
Compensated Absences Payable	<u>\$ 1,184,748.61</u>	<u>\$ 109,406.80</u>	<u>\$ 1,294,155.41</u>
Total Liabilities	<u>\$ 1,169,823,627.93</u>	<u>\$ 238,666,744.57</u>	<u>\$ 1,408,490,372.50</u>
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 738,262.26	\$ -	\$ 738,262.26
Restricted for Return-State Revenue Collections	296,968.03	-	296,968.03
Restricted for Other Specific Purposes	12,939,440.19	-	12,939,440.19
Restricted for Return of Appropriations	3,242,549.38	-	3,242,549.38
Unrestricted (Deficit)	<u>(16,434,987.37)</u>	<u>103,749,788.82</u>	<u>87,314,801.45</u>
Total Net Assets	<u>\$ 782,232.49</u>	<u>\$ 103,749,788.82</u>	<u>\$ 104,532,021.31</u>

The notes to the financial statements are an integral part of this statement.

# Department of Community Health

## STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005

	Net (Expense) Revenue and Changes in Net Assets				
	Program Revenues		Business-Type		
	Expenses	Charges for Services	Operating Grants	Governmental Activities	Total
<b><u>Functions/Programs</u></b>					
Governmental Activities:					
Education	\$ 38,576,887.39	\$ -	\$ -	\$ (38,576,887.39)	\$ (38,576,887.39)
Health and Welfare	7,942,971,466.58	293,728,108.00	4,782,057,993.83	(2,867,185,364.75)	(2,867,185,364.75)
Contribution to State General Fund	5,670,258.87	-	-	(5,670,258.87)	(5,670,258.87)
Total Governmental Activities	\$ 7,987,218,612.84	\$ 293,728,108.00	\$ 4,782,057,993.83	\$ (2,911,432,511.01)	\$ (2,911,432,511.01)
Business-Type Activities:					
Health and Welfare	2,092,456,636.03	1,805,784,104.84	-	(286,672,531.19)	(286,672,531.19)
Total	<u>\$ 10,079,675,248.87</u>	<u>\$ 2,099,512,212.84</u>	<u>\$ 4,782,057,993.83</u>	<u>\$ (2,911,432,511.01)</u>	<u>\$ (3,198,105,042.20)</u>
General Revenues:					
State Appropriation				\$ 33,956,708.00	\$ 2,035,952,486.00
Other				-	953,586,305.74
Interest				9,972,293.02	10,032,283.10
Total General Revenues				<u>\$ 43,929,001.02</u>	<u>\$ 2,999,571,074.84</u>
Change in Net Assets				\$ (242,743,530.17)	\$ (198,533,967.36)
Net Assets (Deficit), July 1				346,493,318.99	303,065,988.67
Net Assets, June 30				<u>\$ 103,749,788.82</u>	<u>\$ 104,532,021.31</u>

The notes to the financial statements are an integral part of this statement.

# Department of Community Health

## FUND BALANCE SHEET

### GOVERNMENTAL FUND - GENERAL FUND

JUNE 30, 2005

#### Assets:

Cash, Cash Equivalents and Investments	\$ 8,988,202.70
Cash, Cash Equivalents and Investments - Restricted	18,890,348.75
Receivables: (Net of Allowances for Uncollectibles)	
State Appropriation	260,878,862.68
Intergovernmental - Federal	694,671,809.26
Other	<u>186,438,374.77</u>
Total Assets	<u>\$ 1,169,867,598.16</u>

#### Liabilities and Fund Balances:

##### Liabilities:

Cash Overdraft	\$ 56,438,708.03
Accounts Payable and Other Accruals	95,227,734.98
Salaries/Withholdings Payable	17,446.07
Federal Deferred Revenue	45,025,115.09
Benefits Payable	<u>957,200,000.00</u>
Total Liabilities	<u>\$ 1,153,909,004.17</u>

##### Fund Balances:

Reserved for Encumbrances	\$ 56,702,850.27
Reserved for Return, State Revenue Collections	296,968.03
Reserved for Other Specific Purposes	12,939,440.19
Reserved for Return of Appropriations	3,242,549.38
Unreserved, Undesignated	<u>(57,223,213.88)</u>
Total Fund Balances	<u>\$ 15,958,593.99</u>

Amounts reported for governmental activities in the statement of net assets are different because :

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.	738,262.26
Long-term obligations, including contracts payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(15,914,623.76)</u>
Net assets of governmental activities	<u>\$ 782,232.49</u>

The notes to the financial statements are an integral part of this statement.

# Department of Community Health

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND - GENERAL FUND

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005

## Revenues:

### Intergovernmental:

State Appropriation	\$ 2,103,426,086.00
Federal	4,782,057,993.83
Other	<u>1,145,944,095.82</u>

Total Revenues \$ 8,031,428,175.65

## Expenditures:

Education	\$ 38,576,887.39
Health and Welfare	7,942,888,539.57
Debt Service:	
Principal	13,628,971.96
Interest	<u>479,720.04</u>

Total Expenditures \$ 7,995,574,118.96

Excess of Revenues Over Expenditures \$ 35,854,056.69

## Other Financing Uses:

Contribution to State General Fund	<u>5,670,258.87</u>
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Net Change in Fund Balance \$ 30,183,797.82

Fund Balance (Deficit), July 1 (14,225,203.83)

Fund Balance, June 30 \$ 15,958,593.99

The notes to the financial statements are an integral part of this statement.

# Department of Community Health

RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND  
GENERAL FUND - TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005

Net Change in Fund Balance - Governmental Fund \$ 30,183,797.82

Amounts reported for governmental activities in the statement of  
activities are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities the cost of those assets is allocated  
over their estimated useful lives and reported as depreciation  
expense. Due to the nature of the Department's operations, this  
amount primarily represents the amount by which capital outlays  
exceeded depreciation in the current period.

Capital Outlays	\$ 623,619.39	
Depreciation	<u>(144,779.93)</u>	
		478,839.46

Governmental funds do not report a liability for long-term obligations  
or compensated absences. The issuance of long-term obligations  
provides current financial resources to governmental funds while  
the repayment of the principal consumes the current financial  
resources of governmental funds. This amount is the net effect  
of these differences in the treatment of long-term obligations and  
related items.

Principal Repayment	\$ 13,628,971.96	
Change in Compensated Absences	<u>(82,046.43)</u>	
		<u>13,546,925.53</u>

Net Change in Net Assets - Governmental Activities \$ 44,209,562.81

The notes to the financial statements are an integral part of this statement.

# Department of Community Health

STATEMENT OF NET ASSETS  
PROPRIETARY FUND - ENTERPRISE FUND

JUNE 30, 2005

## Assets:

### Current:

Cash, Cash Equivalents and Investments	\$ 27,916,609.57
Receivables - Other (Net of Allowance for Uncollectibles)	<u>47,898,745.27</u>
Total Current Assets	<u>\$ 75,815,354.84</u>

### Noncurrent:

Investments	<u>\$ 266,601,178.55</u>
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Total Assets	<u>\$ 342,416,533.39</u>
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## Liabilities:

### Current:

Accounts Payable and Other Accruals	\$ 14,409,331.45
Salaries/Withholdings Payable	8,058.65
Benefits Payable	169,380,000.00
Deferred Revenue	54,629,428.75
Compensated Absences Payable	<u>130,518.92</u>
Total Current Liabilities	<u>\$ 238,557,337.77</u>

### Noncurrent:

Compensated Absences Payable	<u>\$ 109,406.80</u>
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Total Liabilities	<u>\$ 238,666,744.57</u>
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## Net Assets:

Unrestricted for State Health Benefit Plan	<u>\$ 103,749,788.82</u>
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The notes to the financial statements are an integral part of this statement.

# Department of Community Health

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN NET ASSETS -  
PROPRIETARY FUND - ENTERPRISE FUND

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005

## Operating Revenues:

Contributions	\$ 1,805,784,104.84
State Appropriation	<u>33,956,708.00</u>

Total Operating Revenues	\$ 1,839,740,812.84
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## Operating Expenses:

Health and Welfare	<u>2,092,456,636.03</u>
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Operating Loss	\$ (252,715,823.19)
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## Nonoperating Revenues:

Interest and Other Investment Income	<u>9,972,293.02</u>
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Change in Net Assets	\$ (242,743,530.17)
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Net Assets, July 1	<u>346,493,318.99</u>
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Net Assets, June 30	<u>\$ 103,749,788.82</u>
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The notes to the financial statements are an integral part of this statement.



# Department of Community Health

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND - ENTERPRISE FUND

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005

## Cash Flows from Operating Activities:

Cash Received from Required Contributions	\$ 1,806,615,883.59
Cash Received from State Appropriation	33,956,708.00
Cash Paid to Vendors	(587,942,732.28)
Cash Paid to Employees	(3,668,726.25)
Cash Paid for Benefits	<u>(1,484,571,636.19)</u>

Net Cash Used in Operating Activities \$ (235,610,503.13)

## Cash Flows from Investing Activities:

Cash Outlay on Investments	\$ 43,504,652.50
Interest and Other Investment Income	<u>9,972,293.02</u>

Net Cash Provided by Investing Activities \$ 53,476,945.52

Net Decrease in Cash, Cash Equivalents and Investments \$ (182,133,557.61)

Cash, Cash Equivalents and Investments, July 1 210,050,167.18

Cash, Cash Equivalents and Investments, June 30 \$ 27,916,609.57

Operating Loss \$ (252,715,823.19)

## Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:

### Changes in Assets and Liabilities:

Increase in Other Receivables	\$ (5,897,201.50)
Increase in Accounts Payable and Other Accruals	1,665,680.92
Increase in Compensated Absences Payable	44,090.65
Increase in Salaries/Withholdings	5,769.94
Decrease in Due to Other Funds	(0.20)
Increase in Benefits Payable	14,558,000.00
Increase in Deferred Revenue	<u>6,728,980.25</u>

Total Adjustments \$ 17,105,320.06

Net Cash Used in Operating Activities \$ (235,610,503.13)

The notes to the financial statements are an integral part of this statement.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 1. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows.

### A. Reporting Entity

The Department of Community Health (the "Department"), an organizational unit of the State of Georgia, is part of the executive branch of the government of the State of Georgia. The Department was created to coordinate health planning for state agencies and to maximize the State's healthcare purchasing power. The Board of the Department is composed of nine members appointed by the Governor and is empowered to establish the general policy to be followed by the Department.

The Department does not have authority to determine the amount of funding it will receive from the State of Georgia for any given fiscal year. Such authority is vested in the General Assembly of Georgia. The Department also does not have authority to retain unexpended State appropriations (surplus) for any given fiscal year. Accordingly, the Department is included within the State's basic financial statements as a part of the primary government (as defined in Section 2100.114 of the Codification of Governmental Accounting and Financial Reporting Standards).

The accompanying basic financial statements include only the financial activities for the Department. The latest available financial statements for the State of Georgia are as of and for the fiscal year ended June 30, 2004. These statements should be read in conjunction with the State's Comprehensive Annual Financial Report, available through the Georgia Department of Audits and Accounts – 270 Washington Street, S.W., Atlanta, Georgia 30334-8400.

### B. Basic Financial Statements

The basic financial statements include both department-wide (based on the Department as a whole) and fund financial statements. The department-wide financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the Department-wide statement of net assets, both the governmental and business-type activities are reflected, on a full accrual, economic resource basis, which incorporates long-term assets as well as long-term obligations. The department-wide statement of activities reflects the net costs by function/program and is offset by general revenues (intergovernmental revenues, interest income, etc.). Program revenues include: (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

The department-wide focus is on the sustainability of the Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund statements categorize primary activities as either governmental or proprietary. A fund is a separate accounting entity with a self-balancing set of accounts. The emphasis of the fund financial statements is on the Department's major funds in either the governmental or proprietary categories. Separate fund financial statements are provided for the Department's governmental and proprietary funds.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 1. Summary of Significant Accounting Policies (continued)

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities, (b) demonstrate the source and use of liquid resources and (c) demonstrate how the Department's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the department-wide statements' governmental activities column, a reconciliation is presented on the page following the statement of revenues, expenditures and changes in fund balance – governmental fund – general fund, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column of the department-wide presentation. A reconciliation which explains the differences between the total fund balance on the governmental fund balance sheet and the net assets of governmental activities is also presented.

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

All governmental and business-type activities and enterprise funds of the Department follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The major funds reported by the Department are as follows:

**Governmental Funds** are used to account for the Department's general activities. The **General Fund** is the Department's primary operating fund and the only governmental fund. It accounts for all financial resources of the Department except for those accounted for in the Enterprise Fund.

**Proprietary Funds** are used to account for activities similar to those found in the private sector, where cost recovery and the determination of net income is necessary or useful for sound financial administration. The Department's only proprietary fund type is the **Enterprise Fund**. The Department's Enterprise Fund is the State Employees' Health Benefit Plan (the "Health Benefit Plan"). The Health Benefit Plan is a self-insured program of health benefits for the employees of units of government and local education agencies located within the State of Georgia.

### C. Measurement Focus and Basis of Accounting

**Governmental Funds** - The Department's Governmental Fund is presented using the flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. As noted previously, the Department's only governmental fund is the General Fund.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 1. Summary of Significant Accounting Policies (continued)

**Proprietary Funds and Department-Wide** - The Department's Proprietary Fund and department-wide financial statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Proprietary Fund's principle ongoing operations. Operating revenue for the Enterprise Fund consists primarily of employer and participant contributions to the Health Benefit Plan. Operating expense for the Enterprise Fund includes direct general and administrative expenses related to administering the Health Benefit Plan. All revenues and expenses not meeting this definition are reported as non-operating revenues/expenses.

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The department-wide financial statements and the Proprietary Fund financial statements are presented on the accrual basis of accounting. The Governmental Fund financial statements are presented on a modified accrual basis.

**Accrual** - Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual** - Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the following six months. Principal revenue sources, which are susceptible to accrual, include federal grants and shared revenues (which include state appropriations). Revenues applicable to expenditure-driven programs; however, may be accrued based on the unexecuted portion of contracts for goods and services. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that certain long-term obligations are recognized when due rather than when incurred.

### D. Cash, Cash Equivalents and Investments

The State Depository Board is designated by State law as the oversight Board for the State of Georgia's cash management and investment policies. The Office of Treasury and Fiscal Services ("OTFS") acts as the administrative agent of the State Depository Board. The policy of the State of Georgia is to maximize the protection of State funds on deposit while accruing an advantageous yield on those funds in excess of those required for current operating expenditures (Official Code of Georgia Annotated [O.C.G.A.] Section 50-17-51). The State Depository Board may permit any Department, board, bureau or other agency to invest funds collected directly by such organization in short-term time deposit agreements, provided that the interest income of those funds is remitted to the Director of the OTFS as revenues of the State of Georgia. As a matter of general practice, however, State funds of any Department, board, bureau or other agency in excess of current operating needs are required to be deposited with the Director of the OTFS for the purposes of pooled investment. Such cash is managed in pooled investment funds to maximize interest earnings.

Authorized pool investments are limited to the following in accordance with State statutes and policies of the State Depository Board:

- 1) Obligations issued by the State of Georgia or its agencies or other political subdivisions of the State.
- 2) Obligations issued or guaranteed by the United States government and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government.
- 3) Prime bankers' acceptances.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 1. Summary of Significant Accounting Policies (continued)

- 4) Repurchase agreements.
- 5) Obligations and commercial paper issued by domestic corporations.
- 6) Obligations of industrialized foreign governments.
- 7) Obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation.
- 8) Certificates of deposit.

Pooled assets and other deposits of the Department are categorized on the statement of net assets as follows:

- a) Cash, cash equivalents and investments include currency on hand, demand deposits with banks and other financial institutions and funds in transit from other spending units. Cash, cash equivalents and investments also include short-term, highly liquid investments with maturities of three months or less from the date of acquisition.
- b) Restricted cash is cash held in a separate bank account to comply with federal regulations stipulating that the proceeds of federally forfeited cash, property or interest shall not be commingled with other funds of any kind. The majority of these funds are restricted for use solely for the purpose of criminal fraud investigations as described in the Federal Equitable Sharing Agreement entered into by the Department and for the purpose of assisting nursing home facilities that have been sanctioned by the CMS.
- c) Investments are defined as those financial instruments with terms in excess of three months from the date of purchase and certain other securities held for the production of revenue.

### Health Benefit Plan Portfolio

As of June 30, 2005, the Health Benefit Plan Portfolio investments consist of shares of Georgia Fund 1, shares of the Georgia Extended Asset Pool and a separately managed portfolio. These investments are recorded at fair value. Fair value is determined based on market value for assets held in the dedicated or separately managed portfolio.

The duration of the Health Benefit Plan Portfolio at June 30, 2005 was 0.92 years.

### Georgia Fund 1

Georgia Fund 1 is a combination of local and State government investment pools. Georgia Fund 1 (the "pool") is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAm rated money market funds. The pool is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal. Net asset value is calculated daily and reported to the rating agency weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and values participants' shares sold and redeemed at the pool's share price, \$1.00 per share. Pooled cash, cash equivalents and investments are reported at cost. The pool does not issue any legally binding guarantees to support the value of the shares. Participation in the pool is voluntary and deposits consist of funds from local governments, operating and trust funds of State agencies, colleges and universities and current operating funds of the State's General Fund. Investments in Georgia Fund 1 are directed toward short-term instruments such as U. S. Treasury obligations, securities issued or guaranteed as to principal and interest by the U. S. Government or any of its agencies or instrumentalities, bankers' acceptances and repurchase agreements. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2005 was 24 days.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 1. Summary of Significant Accounting Policies (continued)

The Department does not have any risk exposure related to investments in derivatives or similar investments in Georgia Fund 1, as the investment policy of the OTFS does not provide for investments in derivatives or similar investments through the Georgia Fund 1.

### Georgia Extended Asset Pool

The Georgia Extended Asset Pool is a variable net asset value investment pool which follows Standard and Poor's criteria for AAAs rated funds. The pool is not registered with the SEC as an investment company. The pool's primary objective is the prudent management of public funds on behalf of the State of Georgia and local governments seeking income higher than money market rates. Net Asset Value ("NAV") is calculated daily to determine current share price. NAV is calculated by taking the closing fair value of securities owned plus other assets and subtracting liabilities. The remainder is then divided by the total number of shares outstanding to compute NAV per share (current share price). The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on the current share price, which at June 30, 2005, was at \$1.99 per share. The OTFS hired a third party bank, Investors Bank and Trust, to perform custody and valuation services to include calculation of the NAV. Pooled cash and cash equivalents and investments are reported at fair value. The pool does not issue any legally binding guarantees to support the value of the shares. Participation in the pool is voluntary and deposits consist of funds from local governments, operating and trust funds of State agencies and current operating funds of the State's General Fund. Investments in the Georgia Extended Asset Pool consist generally of securities issued or guaranteed as to principal and interest by the U. S. Government or any of its agencies or instrumentalities and repurchase agreements. The duration of the Georgia Extended Asset Pool at June 30, 2005 was 0.92 years.

For additional disclosures related to cash, cash equivalents and investments see Note 2.

### E. Accounts Receivable

The State Appropriation receivable consists of funds appropriated and allotted to the Department by the Georgia General Assembly that have not been drawn down from the OTFS as of June 30, 2005. Receivables reported as Intergovernmental – Federal result from expenditures incurred by the Department for which all eligibility requirements have been met that are related to federal grants and entitlements. Reimbursement for these expenditures had not been received from the federal government as of June 30, 2005. Management has determined the State Appropriation receivable and the Intergovernmental – Federal receivables to be fully collectible at June 30, 2005. Therefore, no provision for uncollectible amounts has been reported for such receivables.

The Constitution of the State of Georgia precludes the Department from forgiving certain debts due the State in the absence of statutory exception. Although the Department has implemented policies and procedures for continued collection efforts, significant claim refunds due cannot be deleted from the accounting records of the Department.

### F. Capital Assets

Capital Assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Depreciation on capital assets is provided on the straight-line basis over the asset's useful life. The Department's capitalization threshold is \$5,000 for all capital assets.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 1. Summary of Significant Accounting Policies (continued)

### G. Compensated Absences/Sick Leave

The Department accrues accumulated unpaid vacation and associated employee-related costs when earned (or estimated to be earned) by the employee. For the Enterprise Fund and the Department-wide financial statements, the entire liability is accrued within the current period. The compensated absences are not considered matured and therefore, are not a governmental fund liability. The compensated absences liability represents a reconciling item between the fund level and Department-wide presentations for the Governmental Fund. Employees earn annual leave ranging from 10 to 14 hours each month depending upon the employee's length of continuous State service with a maximum accumulation of 45 days. Employees are paid for unused accumulated annual leave upon retirement or termination of employment. Compensated absences reported by the Department are charged to the health and welfare function for each fund type and activity.

Sick leave does not vest with the employee. Unused accumulated sick leave is forfeited upon retirement or termination of employment. However, certain employees who retire with 120 days or more of forfeited annual and sick leave are entitled to additional service credit in the Employees' Retirement System of Georgia. Funds are provided in the appropriation of State funds each fiscal year to cover the cost of annual leave of terminated employees. Employees earn 10 hours of sick leave each month with a maximum accumulation of 90 days.

### H. Fund Balances

Reservations of Fund Balances represents amounts that are not appropriable for expenditure or are legally segregated for a specific future use. See note 8 for a reconciliation of reservations of Fund Balances from the fund balance sheet governmental fund – general fund to the statement of net assets at June 30, 2005.

### I. Net Assets

The Department-wide and proprietary fund financial statements utilize a net asset presentation. The statement of net assets is intended to show net assets categorized as investment in capital assets (net of related debt), restricted and unrestricted. When both restricted and unrestricted resources are available for use, the Department's policy is to use restricted resources first then unrestricted resources as needed.

**Investment in Capital Assets** - Net assets which are associated with non-liquid, capital assets are reported less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

**Restricted Net Assets** – Net assets are reported as restricted when constraints are externally imposed by creditors or imposed by law.

**Unrestricted Assets (Deficit)** – Net assets are reported as unrestricted when they do not meet the definition of "restricted" or "investment in capital assets."

### J. Related Party Transactions

During the normal course of business, the Department provides services to various agencies and Departments of the State. As an organizational unit of the State and a substantial component of the primary government's financial statements, the relationship of the Department with other parties of the State is so pervasive that disclosure of the relationship alone is sufficient.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 1. Summary of Significant Accounting Policies (continued)

### K. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the Department-wide columnar presentation. The Department has the following types of interfund transactions:

*Quasi-external transactions* for services rendered by one fund to another are accounted for as revenues by the recipient fund and expenditures or expenses by the disbursing fund.

*Transfers* are recorded for all other interfund transactions.

### L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the reported amounts of revenues and expenditures/expenses. Actual results could differ from those estimates.

## Note 2. Deposits and Investments

### A. Deposits

**Custodial Credit Risk.** For deposits, custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. At year-end, the carrying amounts of the Department's deposits between the General Fund and the Enterprise Fund were (\$37,473,680.26) and the bank balances were \$55,360,163.75.

As of June 30, 2005, \$54,960,163.75 of the Department's bank balance of \$55,360,163.75 was exposed to custodial risk as follows:

Uninsured and Uncollateralized	\$ 54,960,163.75
Insured	<u>400,000.00</u>
Total Bank Balances	<u>\$ 55,360,163.75</u>

The uninsured, uncollateralized bank balance of \$54,960,163.75 represents deposits net of bank entity settlement payment of \$267,419,017.00 that occurred June 30, 2005.



# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 2. Deposits and Investments (continued)

### B. Investments

The carrying amount of the Department's investment balances as of June 30, 2005, shown below is maintained in an investment pool by the OTFS and is not subject to risk categorization. The investment in Georgia Fund 1 is included in "Cash, Cash Equivalents and Investments" on the statement of net assets.

Type of Investment	Fair Value	Weighted Average Maturity (Days)	Duration (Years)
Georgia Fund 1	\$ 36,830,133.80	24.00	
Georgia Extended Asset Pool	<u>109,932,570.00</u>		0.92
Dedicated Portfolio:			
Interest Receivable	\$ 321,708.00		
Repurchase Agreement	96,463,400.00		0.003
Federal Home Loan Bank Consolidated Bonds	19,783,500.00		0.7285
US Treasury Notes	<u>40,100,000.00</u>		2.68
Fair Value of Dedicated Portfolio	<u>\$ 156,668,608.00</u>		
Dedicated Portfolio Duration			0.80
Total Fair Value	<u>\$ 303,431,311.80</u>		

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates may adversely affect an investment's fair value. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It relies on the policy of the State to maximize the protection of State funds while accruing an advantageous yield on those funds in excess of those required for current operating expenditures.

Credit Risk. State law limits investments to US Treasury Bills and notes, obligations issued by federal financial institutions and repurchase agreements collateralized by authorized securities. The Department has no investment policy that would further limit its investment choices. As stated above, the Department relies on the policy of the State as a whole. As of June 30, 2005, Standard and Poor's rated the Department's investment in the Georgia Fund 1 as AAAM and the Georgia Extended Asset Pool as AAAF. The Dedicated Portfolio is a non-rated portfolio; however, the portfolio invests only in AAA rated instruments.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department's \$96,463,400.00 investments in repurchase agreements are uninsured and unregistered investments for which the securities are held by the counterparty in the Department's name. The Department had no policy on custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. The State places no limit on the amount the OTFS may invest in any one issuer. More than five percent of the Dedicated Portfolio investments are in repurchase agreements and Federal Home Loan Bank Consolidated Bonds. These investments are 61.58 percent and 12.63 percent, respectively, of the Dedicated Portfolio's total investments.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 3. Accounts Receivable

Receivables – Other - arising from governmental activities are reported at June 30, 2005 as follows:

	<u>Receivables - Other</u>	<u>Allowance Amount</u>	<u>Receivables - Other (Net of Allowances for Uncollectibles)</u>
Interim payments to providers and claim refunds due	\$ 92,891,525.59	\$ (29,858,647.00)	\$ 63,032,878.59
School nurse program	370,779.06	-	370,779.06
Direct billings for services provided	<u>123,034,717.12</u>	<u>-</u>	<u>123,034,717.12</u>
	<u>\$ 216,297,021.77</u>	<u>\$ (29,858,647.00)</u>	<u>\$ 186,438,374.77</u>

At June 30, 2005, the Receivables - Other for business-type activities are reported as follows:

	<u>Receivables - Other</u>	<u>Allowance Amount</u>	<u>Receivables - Other (Net of Allowances for Uncollectibles)</u>
Contributions receivable	\$ 47,498,759.00	\$ -	\$ 47,498,759.00
Claim refunds due	4,189,623.42	(4,157,555.61)	32,067.81
Other accounts receivable	<u>367,918.46</u>	<u>-</u>	<u>367,918.46</u>
	<u>\$ 52,056,300.88</u>	<u>\$ (4,157,555.61)</u>	<u>\$ 47,898,745.27</u>

A contra-asset valuation account has been established to indicate the portion of claim refunds due and estimated to be uncollectible in excess of the statutory limit, which cannot be legally written off (\$100 for governmental activities and \$400 for business-type activities). At June 30, 2005, the allowance for uncollectible claim refunds due to the Enterprise Fund was determined to be \$4,157,555.61. The allowance for uncollectible interim payments to providers and claim refunds due to the Governmental Fund was determined to be \$29,858,647.00.

## Note 4. Capital Assets

The following is a summary of capital assets presented in the statement of net assets in the governmental activities column at June 30, 2005:

	<u>Balance at July 1, 2004</u>	<u>Additions and Adjustments</u>	<u>Deletions and Adjustments</u>	<u>Balance at June 30, 2005</u>
Governmental Activities:				
Depreciable Capital Assets:				
Equipment, furniture and fixtures	\$ 1,097,901.03	\$ 623,619.39	\$ 195,850.68	\$ 1,525,669.74
Accumulated Depreciation:				
Equipment, furniture and fixtures	<u>838,478.23</u>	<u>144,779.93</u>	<u>195,850.68</u>	<u>787,407.48</u>
	<u>\$ 259,422.80</u>	<u>\$ 478,839.46</u>	<u>\$ -</u>	<u>\$ 738,262.26</u>

The investment in capital assets includes equipment, furniture and fixtures. All capital outlay and depreciation was charged to the health and welfare function.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 5. Operating Leases

The Department has entered into certain agreements to lease real property, which are classified for accounting purposes as operating leases. These leases generally contain provisions that, at the expiration date of the original term of the lease, the Department has the option of renewing the lease on a year-to-year basis. Total expenditures for the rental of real property under such leases were \$44,769.86 for the year ended June 30, 2005. The future minimum commitments for operating leases as of June 30, 2005 are listed below. Amounts are included only for non-cancelable multi-year leases and for cancelable leases for which an option to renew for the subsequent fiscal year has been exercised.

Fiscal Year Ending June 30, 2006	\$ 29,641.52
Fiscal Year Ending June 30, 2007	25,797.72
Fiscal Year Ending June 30, 2008	<u>3,417.62</u>
	<u>\$ 58,856.86</u>

## Note 6. Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal year:

	Balance at July 1, 2004	Additions	Deductions	Balance at June 30, 2005	Due within one year
Governmental Activities:					
Compensated Absences	\$ 1,963,292.67	\$ 1,029,863.42	\$ 947,816.99	\$ 2,045,339.10	\$ 860,590.49
Contracts Payable	<u>27,498,256.62</u>	<u>-</u>	<u>13,628,971.96</u>	<u>13,869,284.66</u>	<u>13,869,284.66</u>
	<u>\$ 29,461,549.29</u>	<u>\$ 1,029,863.42</u>	<u>\$ 14,576,788.95</u>	<u>\$ 15,914,623.76</u>	<u>\$ 14,729,875.15</u>
Business-Type Activities					
Compensated Absences	<u>\$ 195,835.07</u>	<u>\$ 139,593.79</u>	<u>\$ 95,503.14</u>	<u>\$ 239,925.72</u>	<u>\$ 130,518.92</u>

Terms of a Compromise Agreement reported as Contracts Payable are as follows:

The Department is a party to a contract for revenue maximization enhancement. Future required payments under this agreement include quarterly installments beginning on September 30, 2004 (and within 30 days after the end of each calendar quarter) in the amount of \$3,513,903.50 through June 30, 2006.

The amounts to be paid will be payable by the Department solely from designated other revenue sources (as described in the contract). Amounts due are subject to receipt of sufficient designated other revenue for the quarter and the fiscal year. If the available other revenue (defined as non-federal and non State-appropriated) for any one fiscal year is insufficient for a full payment, the unpaid balance of that year's contract amount shall carry forward into the following fiscal year, to be payable from designated other revenue sources for that year until the total amount has been paid by the Department to the contractor.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 6. Long-Term Obligations (continued)

Based on the above terms, computation of the net present value of installments using an imputed annual interest rate of 2.14 percent (the State's estimated cost of funds rate) results in the following schedule of annual payments of principal and interest amounts due for fiscal year ending June 30, 2006:

Principal	Interest	Total
<u>\$ 13,869,284.66</u>	<u>\$ 186,329.34</u>	<u>\$ 14,055,614.00</u>

Total imputed interest charged to health and welfare for the revenue maximization contract for the year ended June 30, 2005 totaled \$479,720.04. An additional contingency fee amount of \$53,078.00 was incurred during fiscal year 2005 and was charged to health and welfare.

## Note 7. Contributions to the State

Contributions to the State for the fiscal year ended June 30, 2005, consist of the following:

### General Fund

Office of Treasury and Fiscal Services

Return of Appropriations \$ 3,384,066.59

Remittance of Collections 2,286,192.28

\$ 5,670,258.87

## Note 8. Reservations of Fund Balances

Because of differences in classification from modified accrual to full accrual, a reconciliation and brief description of fund balances from the fund balance sheet governmental fund – general fund to the statement of net assets at June 30, 2005 is presented below:

	General Fund	Governmental Activities
Reserved/Restricted for Other Specific Purposes	<u>\$ 12,939,440.19</u>	<u>\$ 12,939,440.19</u>
Reserved for Encumbrances	\$ 56,702,850.27	\$ 56,702,850.27
Compensated Absences	-	(2,045,339.10)
Contracts Payable	-	(13,869,284.66)
Unreserved, Undesignated	<u>(57,223,213.88)</u>	<u>(57,223,213.88)</u>
Unrestricted (Deficit)	<u>\$ (520,363.61)</u>	<u>\$ (16,434,987.37)</u>
Reserved/Restricted for Return of Appropriations	\$ 3,242,549.38	\$ 3,242,549.38
Reserved/Restricted for Return, State Revenue Collections	296,968.03	296,968.03
Investment in Capital Assets, Net of Related Debt	<u>-</u>	<u>738,262.26</u>
Total Net Assets/Fund Balance	<u>\$ 15,958,593.99</u>	<u>\$ 782,232.49</u>

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 8. Reservations of Fund Balances (continued)

**Reserved/Restricted for Other Specific Purposes** – funds reserved to comply with specific federal and State regulations.

**Reserved for Encumbrances** – funds reserved for commitments related to unperformed (executory) contracts or purchase orders for goods or services.

**Compensated Absences** – absences for which employees will be paid at some point in the future and will use resources beyond expendable financial resources.

**Contracts Payable** – the portion of a total contractual commitment for which related services have not yet been rendered.

**Reserved/Restricted for Return of Appropriations** – unobligated State appropriations for administration, subject to return to the Office of the Treasury and Fiscal Services.

**Reserved/Restricted for Return, State Revenue Collections** - collection of specific fees mandated by statute and held for remittance to the Office of the Treasury and Fiscal Services.

## Note 9. Risk Management

### A. Public Entity Risk Pool

The Department's business – type activities internally administers for the State of Georgia a program of health benefits for the employees of units of government of the State of Georgia, units of county government and local education agencies located within the State of Georgia. This plan is funded by participants covered in the plan, by employers' contributions paid by the various units of government participating in the plan and appropriations by the General Assembly of Georgia. The Department has contracted with Blue Cross Blue Shield of Georgia, Cigna and United Health Care to process claims in accordance with the State Employees' Health Benefit Plan as established by the Board of Community Health.

### B. Other Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries to employees. The State of Georgia utilizes self-insurance programs established by individual agreement, statute or administrative action, to provide property insurance covering fire, extended coverage and automobile insurance and to pay losses that might occur from such causes; liability insurance for employees against personal liability for damages arising out of performance of their duties; survivors' benefits for eligible members of the Employees' Retirement System; consolidating processing of unemployment compensation claims against State agencies and the payment of sums due to the Department of Labor; and workers' compensation insurance coverage for employees of the State and for the receipt of benefits as prescribed by the workers' compensation statutes of the State of Georgia. These self-insurance funds are accounted for as internal service funds of the State of Georgia where assets are set aside for claim settlements. The majority of the risk management programs are funded by assessments charged to participating organizations. A limited amount of commercial insurance is purchased by the self-insurance funds applicable to property, employee and automobile liability, fidelity and certain other risks to limit the exposure to catastrophic losses. Otherwise, the risk management programs service all claims against the State for injuries and property damage.

Financial information relative to the self-insurance funds will be presented in the State of Georgia Comprehensive Annual Financial Report for the year ended June 30, 2005.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 9. Risk Management (continued)

The Department's estimated fiscal year-end liability includes an estimate for claims that have been incurred, but not reported, which is computed by both the Department and its actuaries. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported), but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Because actual claim liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claim liabilities may not result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The Department utilizes third party administrators to process Medicaid, PeachCare and State employee health benefit claims. Agreements between individual administrators and the Department are for the processing of specific claim types. If an administrator was unable to continue processing claims for the Department under such an agreement, the Department's ability to adjudicate such claims in the short-term could be threatened.

A reconciliation of total claim liabilities for fiscal years ended June 30, 2005 and 2004 for *business-type activities* and *governmental activities*, is shown below:

	Business - Type Activities		Governmental Activities	
	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004
Unpaid Claims and Claim				
Adjustments, July 1	\$ 154,822,000.00	\$ 154,682,000.00	\$ 901,100,000.00	\$ 1,008,800,000.00
Incurred Claims and Claim				
Adjustment Expenses - Provisions for				
Insured Events of the Current Year	1,487,006,566.22	1,330,155,728.63	7,609,123,387.73	6,557,239,594.35
Payments-Claims and Claim Adjustment				
Expenses Attributable to Insured Events				
of the Current Year and of Prior Years	(1,472,448,566.22)	(1,330,015,728.63)	(7,553,023,387.73)	(6,664,939,594.35)
Unpaid Claims and Claim				
Adjustments, June 30	\$ 169,380,000.00	\$ 154,822,000.00	\$ 957,200,000.00	\$ 901,100,000.00

The above liabilities include an actuarial estimate for claims incurred, but not reported based on analyses of historical data.

## Note 10. Deferred Compensation Plan

The State of Georgia offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to employees of the State of Georgia and county health Departments, permits participants to defer a portion of their salary until future years. The Department makes no contributions to the plan. Participants choose the option or options in which they wish to participate. Deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 10. Deferred Compensation Plan (continued)

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the participant or beneficiary) solely the property or rights of the State of Georgia, subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State of Georgia in an amount equal to the fair market value of the deferred account of each participant. Financial information relative to the plan will be presented in the State of Georgia Comprehensive Annual Financial Report for the year ended June 30, 2005.

## Note 11. Postretirement Benefits

The State of Georgia provides postretirement healthcare benefits through the State Health Benefit Plan to retirees pursuant to OCGA Section 45-18. An individual eligible for these benefits must have been a full-time employee at the time of retirement of either the State of Georgia or a county social service agency and must be receiving monthly retirement benefits from either the Employees' Retirement System or a county employees' retirement system. The State Health Benefit Plan ("the Plan") is described in Note 9. The Plan is funded on a "pay-as-you-go" basis. Expenses of the Plan include provisions for incurred, but not reported claims. The portion of employer contributions and expenses attributable to postretirement healthcare benefits cannot be reasonably estimated.

## Note 12. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and review by grantor agencies, principally the federal government. This could result in a request for reimbursement by the grantor agency for any expenditures which are disallowed under grant terms. The Department believes that such disallowances, if any, will be immaterial to its overall financial position.

Litigation, claims and assessments filed against the Department, if any, are generally considered to be actions against the State of Georgia. Accordingly, significant litigation, claims and assessments pending against the State of Georgia are disclosed in the State of Georgia Comprehensive Annual Financial Report for the year ended June 30, 2005.

The compromise agreement discussed in Note 5 recognizes the contingency that the United States may contest the State's receipt and use of federal funds under the Upper Payment Limits ("UPL") subproject as stated in the terms of the contract. Any adjudged resulting deficiencies will result in a corresponding reduction in the amount of fees the contractor will have deemed to have earned and the contractor will be obligated to repay such fees to the Department.

## Note 13. Retirement Systems

### A. Employees' Retirement System of Georgia

The Department participates in the Employees' Retirement System of Georgia ("ERS"), a single-employer defined benefit plan established by the Georgia General Assembly for the purpose of providing retirement allowances for employees of the State of Georgia. A "defined benefit plan" differs from a "defined contribution plan" in that benefits are based on a formula that include salary and length of service regardless of any other factors. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation. ERS issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The benefit structure of ERS was significantly modified on July 1, 1982. Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. All other members are "new plan" members subject to the modified plan provisions.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

## Note 13. Retirement Systems (continued)

Total contributions to the plan made during fiscal year 2005 amounted to \$2,634,830.54 of which \$2,303,618.88 was made by the Department (including \$611,728.90 made on behalf of old plan employees) and \$254,823.40 was made by new plan employees.

Financial statements for ERS may be obtained from the Employees' Retirement System of Georgia.

### B. Georgia Defined Contribution Plan

Certain employees of the Department participate in the Georgia Defined Contribution Plan ("GDCP"), a single-employer defined contribution plan established by the Georgia General Assembly for the purpose of providing retirement allowances for State employees who are not members of a public retirement or pension system. GDCP is administered by the ERS Board of Trustees. ERS issues a publicly available financial report that includes the financial statements and disclosures applicable to GDCP. Total contributions made by employees during fiscal year 2005 amounted to \$18,074.04. These contributions represented 7.5% of covered payroll as required by the plan.

### C. Teachers Retirement System

Certain employees of the Department participate in the Teachers Retirement System ("TRS"). TRS was created by an act of the Georgia General Assembly to provide retirement security to those individuals who choose to dedicate their lives to educating the children of the State of Georgia. Since becoming operational, TRS has experienced significant growth in membership, assets and member benefits. TRS is administered by a ten-member Board of Trustees.

Total contributions made by employees during fiscal year 2005 amounted to \$8,033.76. Employer contributions amounted to \$14,846.28. Financial statements for TRS may be obtained from the Teachers' Retirement System of Georgia.

## Note 14: Subsequent Event

In February 2005, the Office of Inspector General (OIG), Department of Health and Human Services issued a draft report entitled *Audit of Georgia's Medicaid Upper Payment Limits for Non-State Government Inpatient Hospitals*. The conclusions reached in the draft report were the Department had overstated its UPL calculations and could potentially owe the federal government \$40,210,178 for overpayments. In August 2005, OIG issued their final report acknowledging the fact that CMS had allowed the Department to retroactively apply a different methodology that resulted in UPL claim amounts being within available UPL credits and therefore, their UPL findings were negated.